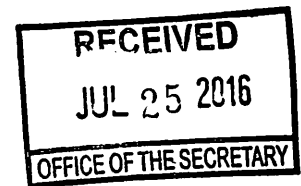


**UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION**



**Administrative Proceeding  
File No. 3-17228**

**In the Matter of**

**David S. Hall, P.C. d/b/a The Hall  
Group CPAs,  
David S. Hall, CPA,  
Michelle L. Helterbran Cochran,  
CPA, and  
Susan A. Cisneros**

**Respondents.**

**DIVISION OF ENFORCEMENT'S  
RESPONSE TO THE HALL  
RESPONDENTS' MOTION FOR  
SUMMARY DISPOSITION**

Respondents David S. Hall, P.C. d/b/a The Hall Group CPAs and David S. Hall, CPA (the "Hall Respondents") filed a motion for summary disposition seeking a finding that this proceeding is barred under the concepts of res judicata and collateral estoppel based on the entry of a settled order by the Public Company Accounting Oversight Board (the "Board"). This Court has already denied the Hall Respondents' motion as it relates to collateral estoppel, noting that because the Board proceeding was a consent judgment it was not actually litigated. Because the Board and the Commission are not in privity, the Court should deny the Hall Respondents' motion as to res judicata as well. And even if the Board and the Commission are in privity, the Hall Respondents waived res judicata and the Commission's entire claim is not barred because of the distinct facts and claims in this proceeding.

**I.  
RELEVANT FACTS AND PROCEDURAL HISTORY**

On April 26, 2016, the Board entered a settled Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions against the Hall Respondents. *In re:*

*The Hall Group, CPAs and David S. Hall, CPA*, PCAOB Release No. 105-2016-015 (April 26, 2016) (the “Board’s Order”). The Board’s Order found various violations of Board rules and auditing standards in connection with three audits: the June 30, 2012 financial statements of Seven Arts Entertainment Inc. (“Seven Arts”); the June 30, 2012 financial statements of Freestone Resources, Inc. (“Freestone”); the December 31, 2012 financial statements of Medient Studios, Inc. (“Medient”). As result of the Board’s Order, Hall was barred from associating with a registered public accounting firm. Board’s Order, at p. 14, IV.B. Footnote 43 to the Board’s Order notes that that as a consequence of that bar, Hall was unable to associate with an issuer, broker, or dealer in “an accountancy or a financial management capacity . . . .” Board’s Order, at p. 14, n.43.

On the same day that the Board entered its settled order, the Commission entered its *Order Instituting Public Administrative and Cease-And-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice*, SEC Release No. 77718 (April 26, 2016) (the “OIP”). The OIP alleged violations of various federal securities laws in connection with 16 audits and 35 reviews, including the three audits addressed in the Board’s Order.

The Hall Respondents filed their response to the OIP on June 16, 2016, and filed their motion for summary disposition on July 5, 2016.

## **II. ARGUMENT AND AUTHORITY**

There is no precedent for holding that res judicata bars parallel actions by the Board and the Commission. Rather, the Board and Commission have brought simultaneous actions in the

past.<sup>1</sup> And Congress expressed a clear intent that the relationship it established between the Board and the Commission was not to have *any* preclusive effect on the Commission's ability to bring proceedings such as this one: "Nothing in this Act or the rules of the Board shall be construed to impair or limit . . . the ability of the Commission to take, on the initiative of the Commission, legal, administrative, or disciplinary action against any registered public accounting firm or any associated person thereof." 15 U.S.C. § 7202(c)(3).

The Court's July 7, 2016 *Order Regarding David S. Hall's Motion for Summary*

*Disposition* summarized the core principles of res judicata:

"Res judicata bars litigation of any claim for relief that was available in a prior suit between the parties or their privies, whether or not the claim was actually litigated." *See Gordon Brent Pierce*, Securities Act of 1933 Release No. 9555, 2014 WL 896757, at \*9 (Mar. 7, 2014) (internal quotation marks omitted), *pet. denied*, 785 F.3d 1027 (D.C. Cir. 2015). Res judicata requires proof of: (1) a final judgment on the merits in a prior suit; (2) an identity of the cause of action in both the earlier and the later suit; and (3) an identity of the parties or their privies in the two suits. *See id.*; *see also Russell v. SunAmerica Sec., Inc.*, 962 F.2d 1169, 1172-73 (5th Cir. 1992) (adding requirement that the prior judgment must have been rendered by a court of competent jurisdiction).

The party asserting res judicata has the burden of proof to establish the defense. *Gordon Brent Pierce*, 2014 WL 896757, at \*9. The Hall Respondents fail to meet this burden. The Hall Respondent's motion for summary disposition fails to show how the Commission and the Board are in privity. Moreover, the Hall Respondents waived their res judicata argument and are not

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<sup>1</sup> *See SEC v. Moore, et al.*, No. 2:09-cv-01637 (D.Nev. Aug. 27, 2009) and *In re: Moore & Associates, Chartered, and Michael J. Moore, CPA*, PCAOB Release No. 105-2009-006 (Aug. 27, 2009); *see also In re: Lovelock & Lewes, et al.*, Securities Exchange Act Release No. 64184 (April 5, 2011) and *In re: Price Waterhouse, Bangalore, et al.*, PCAOB Release No. 105-2011-002.

entitled to a complete bar of the proceeding, assuming that there is privity, because the Commission's proceeding involves distinct facts and claims from the Board's proceeding.

**A. The Commission and the Board Are Not in Privity**

For the doctrine of res judicata to bar the Commission's action, the Commission and the Board must be the same party—which they are not—or they must be in privity with each other. *Gordon Brent Pierce*, 2014 WL 896757, at \*9. Privity in this context is a “legal conclusion that the relationship between the one who is a party on the records and the non-party is sufficiently close to afford application of the principle of preclusion.” *Meza v. General Battery Corp.*, 908 F.2d 1262, 1266 (5th Cir. 1990). The Fifth Circuit has held that privity exists in three instances, none of which apply here: “(1) where the non-party is the successor in interest to a party's interest in property; (2) where the non-party controlled the prior litigation; and (3) where the non-party's interests were adequately represented by a party to the original suit.” *Id.* Because the Commission is not a successor-in-interest to any property interest of the Board, the first test fails on its face. The other tests also fail.

**1. The Commission's Interests Were Not Adequately Represented by the Board in the Board's Proceeding**

The third test considers whether the Commission's interests were adequately represented by the Board in the Board's proceeding. A non-party to the original litigation is adequately represented where a party in the prior suit is so closely aligned to the non-party's interests as to be the non-party's virtual representative. *Eubanks v. Fed. Deposit Ins. Corp.*, 977 F.2d 166, 170 (5th Cir. 1992)); *Jefferson Sch. of Soc. Science v. Subversive Activities Control Bd.*, 331 F.2d 76, 83 (D.C. Cir. 1963) (holding that privity arises if parties are “so identified in interest with a party to former litigation that he represents precisely the same legal right in respect to the subject matter involved”). Accordingly, privity cannot arise here because the Board was not the

Commission's "virtual representative, and it did not "represent[] precisely the same legal right" as the Commission. *Id.*

Congress established the Board to "oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors." Section 101 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") [15 U.S.C. § 7211].

Although the Board's interests are important, Congress established much broader interests for the Commission, which oversees not just public company accounting but a myriad of interests stemming from the broad impact of transactions involving securities. *See, e.g.*, Section 2 of the Securities Exchange Act of 1934 (stating that Act was necessary "to protect interstate commerce, the national credit, the Federal taxing power, to protect and make more effective the national banking system and Federal Reserve System, and to insure the maintenance of fair and honest markets in [transactions in securities as commonly conducted upon securities exchanges and over-the-counter markets].") 15 U.S.C. § 78b. While the Commission may share certain subsets of its interests with the self-regulatory organizations and other entities that it oversees, none of those organizations' interests are so aligned with the Commission's that res judicata should bar the Commission from protecting its broader interests.

The Commission's broader interests are most clearly reflected by the fact that the Commission's proceeding against the Hall Respondents includes claims and relief that could not have been brought by the Board. The Commission alleges that the Hall Respondents caused certain of its clients to violate Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. OIP, at ¶ 33. The Board did not, and cannot, bring this claim. Only the

Commission has the authority, under Section 21C of the Exchange Act, to bring a causing charge.

Similarly, the Commission seeks to bar the Hall Respondents from appearing or practicing before the Commission as an accountant under Section 4C of the Exchange and Rule 102(e) of the Commission's Rules of Practice, which would have the effect of barring the Hall Respondents from, among other things, practicing before the Commission as an accountant for an investment adviser registered with the Commission. *See* SEC Rule of Practice 102(f); OIP, at ¶ 36, 38. The Board did not, and cannot, obtain this relief. *See* Board's Order, p. 14, n.43 (barring Hall from association with issuers, brokers, and dealers, but not investment advisers). This broader relief available to the Commission reflects the broader interests that the Commission must protect. The Board did not, and cannot, protect those interests in its proceeding. The Commission must be permitted to do so now.

In *Jones v. SEC*, the Fourth Circuit addressed the question of whether the Commission was barred by res judicata from bringing an action against a stockbroker because of a prior proceeding against the broker by the National Association of Securities Dealers ("NASD" now known as FINRA). 115 F.3d 1173 (4th Cir. 1997). The Fourth Circuit held that while the NASD and the Commission shared certain interests, those interests were not identical and res judicata was not appropriate. *Id.*, at 1180-81 ("NASD's interest in prosecuting a disciplinary action does not represent the same legal right that the SEC has in reviewing it.") The same is true here. The Commission's interests are not identical to the Board's, and privity should not apply.

## **2. The Commission Did Not Control the Board in the Board's Proceeding**

The second test looks at whether the Commission controlled the Board in the Board's proceeding. Congress vested the Board with control over its own disciplinary proceedings, and the Commission plays no part in that process until *after* the Board issues an order imposing sanctions. Accordingly, the Commission did not control the Board's disciplinary proceeding involving the Hall Respondents and the parties are not in privity.

Section 105 of Sarbanes-Oxley governs the Board's investigations and disciplinary proceedings. Section 105(c)(4) permits the Board to impose sanctions if it finds that a registered public accounting firm or associated persons of a firm have committed certain violations. 15 U.S.C. § 7215(c)(4). Importantly, there is no requirement that the Board seek any guidance from the Commission as part of its proceedings. Further, no authority is granted to the Commission to intervene or play any role in such proceedings. Rather, the Commission is only entitled to receive notification of the imposition of disciplinary sanctions *after* they are imposed, the same as state regulatory authorities and foreign accountancy licensing boards. Section 105(d)(1) of Sarbanes-Oxley [15 U.S.C. § 7215(d)(1)].

The Commission's role as reviewer of the Board's sanctions is governed primarily by Section 107(c) of Sarbanes-Oxley. Under 107(c)(1), like Section 105(d)(1), the Board is required to notify the Commission of any sanction it imposes, an unnecessary requirement if the Commission controlled the proceedings. 15 U.S.C. § 7217(c)(1). Sections 107(c)(2)-(3) allows the Commission to modify the sanctions imposed by the Board and sets forth the provisions of the Exchange Act that govern the Commission's review of the Board's disciplinary proceedings. 15 U.S.C. § 7217(c)(2)-(3). But just as in Section 105, there is no provision in Section 107 that gives the Commission any authority over the Board's disciplinary proceedings until after

sanctions are imposed. And the Hall Respondents point to no authority that permits the Commission to insert itself into the Board's proceeding as prosecutor.

The Hall Respondents emphasize the Commission's "broad powers of review over PCAOB activities." *Hall Respondents' Brief in Support of Motion for Summary Disposition*, at p.6. But they fail to distinguish the congressionally mandated control that the Commission has over the Board's rule making authority from the reviewer's role that the Commission has over the Board's disciplinary proceedings. Congress required the Commission to approve the Board's rules before they become effective. Section 107(b)(2) of Sarbanes-Oxley [15 U.S.C. § 7217(b)(2)]. There is no such requirement for the Board's disciplinary proceedings. The Board's sanctions become effective with no involvement by the Commission, unless the respondent seeks Commission review of the Board's decision or the Commission takes up a review on its initiative. Section 105(e)(1) of Sarbanes-Oxley [15 U.S.C. § 7215(e)(1)]. If Congress intended for the Commission to control the Board during its disciplinary proceedings, it could have done so. It did not. Instead, Congress vested control of the Boards' disciplinary proceedings to the Board, and review of those decisions to the Commission. Because the Commission did not control the Board in its proceeding, the control test also fails.

In *Jones*, the Fourth Circuit considered a similar dynamic and found that the Commission did not control the NASD:

[R]egistered securities associations are authorized to adopt rules which the SEC must, with limited exceptions, approve prior to their implementation and which the SEC may abrogate or amend as it deems in the public interest, consistent with the requirements of the Exchange Act. Moreover, such associations must notify the SEC of all final orders disciplining association members. A disciplined member may appeal to the SEC, or the SEC may, on its own motion, review final association disciplinary orders. See *id.* On review, the SEC is authorized to affirm, cancel, reduce or require remission of the NASD's sanction.



*Jones*, 115 F.3d at 1179 (internal citations omitted). Given this structure, which is substantially similar to the relationship between the Commission and the Board, the Fourth Circuit held that the Commission acted only as a potential reviewer of the NASD's proceeding and there was no privity: "The SEC was not a party to the NASD proceeding. Its role, if any, was as potential reviewer of the NASD proceeding. But in this case, the SEC did not review the NASD's sanction. Even had it exercised the right of review, however, as reviewer, the SEC does not become a party; its review role is an adjudicatory one." *Id.*, at 1180.

**B. Even if the Commission and the Board Were in Privity, the Commission's Entire Proceeding Is Not Barred.**

**1. The Hall Respondents Waived the Res Judicata Argument**

As part of their settlement with the Board, the Hall Respondents executed offers of settlement that included terms waiving their res judicata argument. The offers of settlement signed by the Hall Respondents state: "Respondent waives any claim that the settlement of this proceeding, including the imposition of any sanction herein, precludes any government entity from imposing liabilities, sanctions, or penalties on Respondent for the violations alleged in this proceeding or identified in the attached Order Instituting Disciplinary Proceedings, Making Finding, and Imposing Sanctions ('Order')." Declaration of Timothy Evans ("Evans Dec."), attached hereto as Exhibit A, at ¶¶ 2-3 and Exhibits 1-2. This language is exceedingly clear: the Hall Respondents waived their ability to claim that the Commission is barred from bringing this proceeding based on the violations they settled to with the Board. The Hall Respondents should be held to their agreement, and their motion should be denied.

## **2. The Commission's Proceeding Involves Broader Facts Than the Board's**

Whether two cases involve the same cause of action turns on whether they share the same “nucleus of facts.” *Page v. United States*, 729 F.2d 818, 820 (D.C. Cir. 1984); *Agrilectric Power Partners, Ltd. v. Gen. Elec. Co.*, 20 F.3d 663, 665 (5th Cir. 1994) (noting that the Fifth Circuit uses a transactional test and considers whether the two actions are based on the “same nucleus of operative facts”). The Board’s proceeding was based on the conduct in just three audits. The Commission’s proceeding was much more expansive, alleging violations based on 16 audits and 35 reviews and Hall’s conduct as an officer of an issuer. Although the three audits that formed the basis of the Board’s proceeding overlap with the audits at issue in the Commission’s proceeding, that cross over is small given the 48 other audits and reviews involved in the Commission’s proceeding. Accordingly, to the extent that the Board and the Commission are in privity, res judicata does not bar the claims arising from the 48 audits and reviews and Hall’s conduct as an officer of an issuer not addressed in the Board’s proceeding.

## **3. The Commission's Proceeding Involves Broader Claims Than the Board's**

As discussed above, the Board did not, and cannot, bring a claim against the Hall Respondents for causing certain of its clients’ violations of Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. Although the Commission has the authority to bring causing charges, under Section 21C of the Exchange Act, the Board has no such provision. Accordingly, the 13(a) charge could not have been brought in the Board’s proceeding, and res judicata cannot bar that claim, even as to the three audits at issue in both proceedings. *See Gordon Brent Pierce*, 2014 WL 896757, at \*9 (“Res judicata bars litigation of any claim for relief *that was available* in a prior suit between the parties or their privies, whether or not the claim was actually litigated.”)

**III.**  
**CONCLUSION**

There is no privity between the Commission and the Board—the Commission did not control the Board in its proceeding and the parties' interests are not identical. Moreover, even if the parties were in privity this proceeding is not barred because the Hall Respondents waived their res judicata argument and the proceedings represent certain distinct facts and claims. Accordingly, the Hall Respondents' motion for summary disposition should be denied, and the Commission should be given its opportunity to protect its interests through this proceeding.

Dated: July 22, 2016

Respectfully submitted,



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David D. Whipple  
D.C. Bar No. 999495  
New York Registration No.402565  
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EvansTim@sec.gov

COUNSEL FOR  
DIVISION OF ENFORCEMENT

### Service List

Pursuant to Rule 150 of the Commission's Rules of Practice, I hereby certify that a true and correct copy of the *Division of Enforcement's Response to Hall Respondents' Motion For Summary Disposition* was served on the following on July 22, 2016 via United Parcel Service, Overnight Mail:


Honorable Cameron Elliot  
Administrative Law Judge  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-2557

David S. Hall, P.C. d/b/a The Hall Group CPAs  
c/o Stuart N. Bennett, Esq.  
Jones & Keller, P.C.  
1999 Broadway, Suite 3150  
Denver, CO 80202

David S. Hall, CPA  
c/o Stuart N. Bennett, Esq.  
Jones & Keller, P.C.  
1999 Broadway, Suite 3150  
Denver, CO 80202

Michele L. Helterbran Cochran, CPA  
[REDACTED]  
[REDACTED]

Ms. Susan A. Cisneros  
[REDACTED]  
[REDACTED]

  
Timothy L. Evans

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING  
File No. 3-17228

**In the Matter of**

David S. Hall, P.C. d/b/a The Hall  
Group CPAs,  
David S. Hall, CPA,  
Michelle L. Helterbran Cochran, CPA,  
and  
Susan A. Cisneros

**Respondents.**

**DECLARATION OF TIMOTHY L. EVANS IN SUPPORT OF  
DIVISION OF ENFORCEMENT'S RESPONSE TO THE  
HALL RESPONDENTS' MOTION FOR SUMMARY DISPOSITION**

TIMOTHY L. EVANS, pursuant to 28 U.S.C. § 1746, declares:

1. I am trial counsel with the Division of Enforcement ("Division") of the Securities and Exchange Commission ("Commission"), and lead counsel for the Division in the above-captioned administrative proceeding. I submit this Declaration in support of the Division's Motion for Summary Disposition ("Motion").

2. Attached hereto as Exhibit 1 is a true copy of the executed Offer of Settlement of David S. Hall, CPA in *In re The Hall Group, CPAs and David S. Hall, CPA*, PCAOB Release No. 105-2016-015 (April 26, 2016), which was provided by the Public Company Accounting Oversight Board to the Commission staff on July 14, 2016.

3. Attached hereto as Exhibit 2 is a true copy of the executed Offer of Settlement of The Hall Group, CPAS in *In re The Hall Group, CPAs and David S. Hall,*



CPA, PCAOB Release No. 105-2016-015 (April 26, 2016), which was provided by the Public Company Accounting Oversight Board to the Commission staff on July 14, 2016.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 22, 2016.



---

Timothy L. Evans



*In the Matter of The Hall Group, CPAs and  
David S. Hall, CPA,  
  
Respondents.*

)  
)  
) OFFER OF SETTLEMENT OF  
) DAVID S. HALL, CPA  
)  
) PCAOB No. 105-2016-XXX  
)  
)  
)  
)

I.

David S. Hall, CPA ("Respondent"), pursuant to Public Company Accounting Oversight Board ("PCAOB" or "Board") Rule 5205, submits this Offer of Settlement ("Offer") in anticipation of a disciplinary proceeding being instituted against him by the Board pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended, and PCAOB Rule 5200(a).

II.

This Offer is submitted solely for the purpose of settling this proceeding, with the express understanding that it will not be used by the Board in any way in this or any other proceeding, unless the Offer is accepted by the Board. If the Offer is not accepted by the Board, the Offer shall be deemed to be withdrawn without prejudice to Respondent and shall not become a part of the record in this or any other proceeding, except for the waiver expressed in Section IV.B below, which shall remain in effect.

III.

Respondent waives any claim that the settlement of this proceeding, including the imposition of any sanction herein, precludes any government entity from imposing liabilities, sanctions, or penalties on Respondent for the violations alleged in this proceeding or identified in the attached Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").

IV.

By submitting this Offer, Respondent hereby waives:

- A. Such provisions of the rules of Board procedure or other requirements of law that may be construed to prevent any member of the Board's staff from participating in the preparation of, or

PCAOB-SEC-THG-001169



advising the Board as to, any order, opinion, finding of fact, or conclusion of law to be entered pursuant to the Offer; and

- B. Any right to claim bias or prejudgment by the Board based on the consideration of or discussions concerning settlement of all or any part of this proceeding.

**V.**

By submitting this Offer, Respondent hereby further waives, subject to the Board's acceptance of the Offer, each of the following:

- A. all hearings pursuant to the statutory provision under which the proceeding is to be instituted;
- B. the filing of post-hearing briefs or other submissions, proposed findings of facts and conclusions of law;
- C. proceedings before, and an initial decision by, a hearing officer;
- D. all post-hearing procedures;
- E. the right to seek review by the U.S. Securities and Exchange Commission; and
- F. judicial review by any court.

**VI.**

Solely for the purpose of this proceeding and any other proceedings brought by or on behalf of the Board or in which the Board is a party, and without admitting or denying the findings contained in the Order, except as to the Board's jurisdiction over him and the subject matter of this proceeding, which is admitted, Respondent consents to the Board's issuance of the Order, in the form attached hereto.

**VII.**

Respondent agrees not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in the Order or creating the impression that the Order is without factual basis. Respondent understands that a breach of this agreement constitutes grounds for the Board to vacate the Order and restore this proceeding to its active docket without prior notice to the Respondent. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Board is not a party.



VIII.

Respondent agrees that, absent reasonable justification, he will, if requested, provide documents, testimony, or other information in a Board proceeding whether or not he is, at the time of the request or demand, associated with a registered public accounting firm. Respondent understands that a breach of this agreement constitutes grounds for the Board to vacate the Order and restore this proceeding to its active docket without prior notice to the Respondent.

IX.

Respondent states that he has read and understands the foregoing Offer, that this Offer is made voluntarily, and that no promises, offers, threats, or inducements of any kind have been made by the Board in consideration of this Offer or otherwise to induce the Respondent to submit this Offer.

X.

Respondent agrees that if this Offer is accepted by the Board, the Order may be issued without service or further notice to the Respondent and shall take effect upon issuance.

Respectfully submitted,

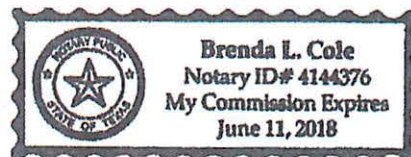
  
\_\_\_\_\_  
David S. Hall, CPA

State of Texas

County of Dallas } ss.

On 2-11-16 before me, Brenda L. Cole, personally appeared DAVID S. HALL, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument. WITNESS my hand and official seal.

Signature Brenda L. Cole (Seal)





Public Company Accounting Oversight Board

Division of Enforcement and Investigations

1666 K Street, N.W.  
Washington, DC 20006  
Telephone: (202) 207-9100  
Facsimile: (202) 862-0757  
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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS

*In the Matter of The Hall Group, CPAs  
and David S. Hall, CPA,*

*Respondents.*

PCAOB Release No. 105-2016-###

[date]

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring The Hall Group, CPAs ("THG" or the "Firm"), revoking the Firm's registration, and imposing a civil money penalty in the amount of \$10,000 upon the Firm;<sup>1</sup> and censuring David S. Hall, CPA ("Hall") and barring Hall from being an associated person of a registered public accounting firm.<sup>2</sup> The Board is imposing these sanctions on the basis of its findings that: (1) the Firm and Hall (collectively, "Respondents") violated PCAOB rules and auditing standards in connection with the audits of the financial statements of three issuer clients; (2) Respondents violated PCAOB rules and auditing standards in connection with the Board's 2013 inspection of the Firm; and (3) the Firm violated PCAOB rules in connection with its failure, in 2014, to file an annual report and to pay an annual fee to the Board.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act") and PCAOB Rule 5200(a)(1) against Respondents.

<sup>1</sup> The Firm may reapply for registration after three (3) years from the date of this Order.

<sup>2</sup> Hall may file a petition for Board consent to associate with a registered public accounting firm after three (3) years from the date of this Order.



**CONFIDENTIAL DRAFT ORDER  
FOR SETTLEMENT PURPOSES ONLY  
January 29, 2016**

**II.**

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), as set forth below.<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>4</sup>

**A. Respondents**

1. The Hall Group, CPAs is, and at all relevant times was, a professional corporation organized under the laws of the state of Texas, and headquartered in Lewisville, Texas. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm previously was licensed to practice public accountancy by the Texas State Board of Public Accountancy ("TSBPA") (license no. C06240). The Firm's license with the TSBPA expired on May 31, 2014. At all relevant times, the Firm was the external auditor for the three issuers discussed below.

2. David S. Hall, age 58, of Lewisville, Texas, is a certified public accountant licensed by the TSBPA (license no. 037991). At all relevant times, Hall was the president and sole owner of the Firm, and he served as the engagement partner for the three audits discussed below. Hall is an associated person of a registered public

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<sup>3</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.



**CONFIDENTIAL DRAFT ORDER  
FOR SETTLEMENT PURPOSES ONLY  
January 29, 2016**

accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

**B. Summary**

3. This matter concerns Respondents' violations of PCAOB rules and auditing standards in connection with the audits of the June 30, 2012 ("FY 2012") financial statements of Seven Arts Entertainment Inc. ("Seven Arts") and Freestone Resources, Inc. ("Freestone"), and the December 31, 2012 financial statements of Medient Studios, Inc. ("Medient") (collectively, the "Audits"). Respondents repeatedly failed to obtain sufficient appropriate audit evidence and to exercise due care and professional skepticism in connection with the Audits.

4. This matter also concerns Respondents' failures to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS7"). The engagement quality reviewer ("EQR") assigned to two of the Audits did not possess the level of knowledge and competence required to perform engagement quality reviews. In addition, Hall served as the EQR for the third Audit, while simultaneously serving as the engagement partner.

5. This matter also concerns Respondents' violations of PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, and Auditing Standard No. 3, *Audit Documentation* ("AS3"). In advance of the Board's 2013 inspection of the Firm, Hall, and others acting at his direction improperly altered, added to, and backdated archived work papers. Respondents made these misleading work papers available to the Board's inspectors in violation of PCAOB Rule 4006. Respondents also failed to comply with AS3 because Hall, and others acting at his direction, did not indicate the date that the work papers were modified, the names of the persons who made the modifications, and the reason for doing so.

6. This matter also concerns the Firm's failure, in 2014, to file an annual report with the Board and to pay an annual fee to the Board. See Section 102(d) of the Act, PCAOB Rule 2200, *Annual Report*; PCAOB Rule 2202, *Annual Fee*.

7. Finally, this matter concerns Hall's violation of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*. At all relevant times, Hall was the sole owner of the Firm and the engagement partner for each of the Audits. Hall was in charge of the Firm's issuer audit practice, and he was the Firm's contact with the Board. Hall took or omitted to take actions knowing, or recklessly not knowing, that his acts and/or omissions would directly and substantially contribute to the Firm's violations of PCAOB rules and auditing standards.



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**C. Respondents Violated PCAOB Rules and  
Auditing Standards in Connection with the Audits.**

8. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>5</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>6</sup> Among other things, those standards require that an auditor exercise due professional care and professional skepticism in performing the audit.<sup>7</sup>

9. PCAOB standards require auditors to take certain steps in connection with the identification and assessment of risks of material misstatement. An auditor should evaluate whether the company's selection and application of accounting principles are appropriate for its business and consistent with the applicable financial reporting framework and accounting principles used in the relevant industry.<sup>8</sup> Also, "[t]he auditor should evaluate whether the information gathered from the risk assessment procedures indicates that one or more fraud risk factors are present and should be taken into account in identifying and assessing fraud risks."<sup>9</sup> The improper recognition of revenue is a presumed fraud risk.<sup>10</sup>

10. To determine whether an identified and assessed risk is a significant risk, the auditor should evaluate whether the risk requires special audit consideration because of the nature of the risk or the likelihood and potential magnitude of misstatement related to the risk.<sup>11</sup> Relevant factors in determining whether a risk is a

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<sup>5</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

<sup>6</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>7</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

<sup>8</sup> See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS12") ¶¶ 12-13.

<sup>9</sup> *Id.* ¶ 65.

<sup>10</sup> *Id.* ¶ 68.

<sup>11</sup> *Id.* ¶ 70.



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significant risk include: (a) whether the identified risk is a fraud risk; and (b) whether the risk involves significant transactions with related parties.<sup>12</sup> The assessment of risk should continue throughout the audit and, when the auditor obtains audit evidence that contradicts audit evidence on which the original risk assessment was made, "the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments."<sup>13</sup>

11. PCAOB auditing standards require auditors to design and implement appropriate audit responses to the risks of material misstatement.<sup>14</sup> The auditor should determine whether it is necessary to make pervasive changes to the nature, timing, or extent of audit procedures to adequately address the assessed risks of material misstatement.<sup>15</sup> "The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence."<sup>16</sup> Also, the auditor should gain an understanding of the business rationale for significant unusual transactions and evaluate whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraud.<sup>17</sup>

12. The auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.<sup>18</sup> The "auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."<sup>19</sup> The auditor must evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.<sup>20</sup> "If the auditor has not obtained sufficient appropriate audit

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<sup>12</sup> Id. ¶ 71.

<sup>13</sup> Id. ¶ 74.

<sup>14</sup> Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS13") ¶ 3.

<sup>15</sup> Id. ¶ 6.

<sup>16</sup> Id. ¶ 7.

<sup>17</sup> AU § 316.66, *Consideration of Fraud in a Financial Statement Audit*.

<sup>18</sup> Auditing Standard No. 15, *Audit Evidence* ("AS15") ¶ 4.

<sup>19</sup> Auditing Standard No. 14, *Evaluating Audit Results* ("AS14") ¶ 3.

<sup>20</sup> Id. ¶ 4.





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evidence about a relevant assertion . . . the auditor should perform procedures to obtain further audit evidence to address the matter."<sup>21</sup> The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.<sup>22</sup>

13. As described below, Respondents failed to comply with the above PCAOB rules and auditing standards in connection with the Audits.

Seven Arts

14. At all relevant times, Seven Arts Entertainment Inc. was a Nevada corporation headquartered in Los Angeles, California. The public filings of Seven Arts disclosed that it was a motion picture production company. At all relevant times, its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act")<sup>23</sup> and was quoted on the OTC Pink marketplace. At all relevant times, Seven Arts was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

15. Hall was the engagement partner for the Firm's audit of the June 30, 2012 financial statements of Seven Arts, and he supervised the work of the engagement team. On October 14, 2012, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion on Seven Arts' financial statements. The audit report was included in the Form 10-K that Seven Arts filed with the Commission on October 15, 2012.

16. At the time of the audit, Respondents understood that the majority of the revenue recognized by Seven Arts resulted from a significant unusual transaction between the company and a related party. Seven Arts disclosed in its public filings that it was a motion picture production and distribution company. Ninety percent of the revenue that the company recognized in FY 2012, however, related to applications for tax credits for rehabilitating a house in New Orleans. The house was owned by a related party; namely, a company formed by the wife of the CEO of Seven Arts. Seven Arts guaranteed construction loans for the related party and, in exchange, the related party assigned to Seven Arts the proceeds of the tax credits. The company recognized revenue on this transaction in the amount of approximately \$7.5 million.

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<sup>21</sup> Id. ¶ 35.

<sup>22</sup> Id. ¶¶ 30-31.

<sup>23</sup> On February 27, 2015, Seven Arts filed a Form 15, *Certification and Notice of Termination of Registration*, with the U.S. Securities and Exchange Commission ("Commission") terminating the company's registration.



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17. Respondents failed to obtain sufficient appropriate audit evidence to evaluate whether an earnings process had taken place such that revenue could be recognized on this transaction. Respondents failed to evaluate whether Seven Arts had substantially accomplished what the company must do to be entitled to the benefits represented by the proceeds of the tax credits. More specifically, Respondents failed to evaluate whether goods had been delivered, services rendered, or other activities that constituted the company's ongoing major or central operations had been performed, as required by U.S. Generally Accepted Accounting Principles ("GAAP").<sup>24</sup>

18. Respondents also failed to obtain sufficient appropriate audit evidence to evaluate whether the proceeds of the tax credits were collectible.<sup>25</sup> Respondents ignored contrary audit evidence that called into question the collectability of these proceeds. Respondents were aware, at the time of the audit, of the following matters: (a) none of the proceeds had been received, either by the related party or by Seven Arts; (b) there was a lack of third-party evidence supporting that the applications for the tax credits had received final approval; (c) the FBI had subpoenaed Firm work papers in connection with an investigation involving the related party's applications for certain of the tax credits; (d) the U.S. Attorney in New Orleans was investigating a potential fraud in connection with the related party's application for certain of the tax credits; and (e) the Louisiana State Auditor was investigating the related party in connection with its application for certain of the tax credits.

19. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

Medient

20. At all relevant times, Medient Studios, Inc.<sup>26</sup> was a Nevada corporation headquartered in Los Angeles, California. Medient's public filings disclosed that it was a film production and distribution company. At all relevant times, its common stock was registered under Section 12(g) of the Exchange Act and was quoted on the OTCQB

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<sup>24</sup> Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 605-10-25-1, *Revenue Recognition*.

<sup>25</sup> Id.

<sup>26</sup> On September 9, 2014, Medient filed a Form DEF-14C, *Definitive Information Statement*, with the Commission stating that Medient had changed its name to Moon River Studios, Inc.





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marketplace.<sup>27</sup> At all relevant times, Medient was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

21. Hall was the engagement partner for the Firm's audit of the December 31, 2012 financial statements of Medient, and he supervised the work of the engagement team. On April 15, 2013, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion, with a going concern explanatory paragraph, on Medient's financial statements. The audit report was included in the Form 10-K that Medient filed with the Commission on April 16, 2013.

*Tax Credit Proceeds*

22. In 2012, Medient recognized revenue in the amount of \$1.4 million, or 43 percent of reported revenue, which consisted of Medient's right to the proceeds of certain United Kingdom film tax credits. Medient disclosed in its public filings that a United Kingdom taxing authority was expected to issue the tax credits to a related party of the company. Medient's CEO was a significant shareholder of that related party. At the time of the audit, Respondents determined that there was a significant risk of material misstatement for this transaction because the proceeds of the tax credits were due from a related party.

23. Respondents failed to obtain sufficient appropriate audit evidence to evaluate whether an earnings process had taken place. More specifically, Respondents failed to evaluate whether goods had been delivered, services rendered, or other activities that constituted the company's ongoing major or central operations had been performed.<sup>28</sup>

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<sup>27</sup> The Commission suspended the trading of Medient stock during the period June 25, 2014 through July 9, 2014, because of questions "about the accuracy and adequacy of publicly disseminated information concerning, among other things, the company's total shares outstanding and its operations." Medient Studios, Inc., TISO, Exchange Act Rel. No. 72462, 79 Fed. Reg. 36569 (June 25, 2014). After the expiration of the trading suspension, OTC Markets Group Inc. discontinued displaying quotes for Medient, and began identifying Medient as a Grey Market security. On March 12, 2015, the company filed with the Commission a Form 25, *Notification of Removal from Listing and/or Registration*, stating that the company had complied with the rules and requirements governing the voluntary withdrawal of the company's common stock from listing and registration on the OTC Markets.

<sup>28</sup> ASC Topic 605-10-25-1.



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24. Respondents also failed to obtain sufficient appropriate audit evidence to evaluate whether the proceeds from the film tax credits were collectible.<sup>29</sup> Respondents ignored contrary audit evidence that called into question the collectability of these proceeds. Among other things, the Firm's work papers contained information related to the following matters: (a) the asset purchase agreement between the related party and the prior owner of the tax credits excluded "[a]ll refunds, credits, or overpayments with respect to Taxes" from the sale; (b) no tax credits had been received, either by Medient or by the related party, at the time of the audit; and (c) there was no evidence that the application for the tax credits had been filed with, or approved by, the taxing authority.

25. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

*Advance from License Agreement*

26. In 2012, Medient also recognized revenue in the amount of \$1.3 million, or 41 percent of total reported revenue, arising out of an advance purportedly due from a motion picture studio. The agreement that entitled Medient to this advance was executed on September 4, 2012. The 2012 agreement was the second amendment to an earlier agreement between the parties. The earlier agreement was dated May 20, 2011. The 2012 agreement increased the original advance amount from approximately \$1.1 million to approximately \$1.3 million.

27. Respondents failed to obtain sufficient appropriate evidence to evaluate whether it was appropriate for Medient to recognize the advance as revenue. Respondents ignored contrary audit evidence that called into question the collectability<sup>30</sup> of the purported revenue, including the following matters: (a) none of the original \$1.1 million advance from May 2011 had been paid; and (b) none of the additional advance from September 2012 had been paid. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

Freestone

28. At all relevant times, Freestone Resources, Inc. was a Nevada corporation headquartered in Dallas, Texas. Freestone's public filings disclosed that it was an oil and gas technology development company. At all relevant times, its common stock was registered under Section 12(g) of the Exchange Act and was quoted on the

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<sup>29</sup> Id.

<sup>30</sup> Id.



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OTCQB marketplace. At all relevant times, Freestone was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

29. Hall was the engagement partner for the Firm's audit of the June 30, 2012 financial statements of Freestone, and he supervised the work of the engagement team. On September 19, 2012, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion, with a going concern explanatory paragraph, on Freestone's financial statements. The audit report was included in the Form 10-K that Freestone filed with the Commission on September 24, 2012.

*Asset Retirement Obligation*

30. Respondents failed to gather sufficient appropriate audit evidence to evaluate whether Freestone's accounting for an asset retirement obligation ("ARO") complied with GAAP. During FY 2012, Freestone recognized an increase in the liability for the cost to plug and abandon oil and gas properties. The ARO liability equaled 43 percent of total reported liabilities. Freestone failed to capitalize this additional cost to the related oil and gas assets. Instead, Freestone applied this cost to current expenses. Respondents failed to evaluate whether this complied with GAAP.<sup>31</sup>

*Financial Statement Disclosures*

31. Freestone failed to make the supplemental financial statement disclosures required of oil and gas producing companies. Supplemental disclosures are required when a company's revenues from oil and gas production equal or exceed 10 percent of total revenues.<sup>32</sup> In FY 2012, 100 percent of Freestone's revenues resulted from oil or gas production. Respondents failed to gather sufficient appropriate audit evidence to evaluate whether Freestone's omission of supplemental disclosures complied with GAAP.

**D. Respondents Failed to Comply with PCAOB Auditing Standards  
in Connection with the Engagement Quality Reviews for the Audits.**

32. AS7 requires that an engagement quality review be performed on audits and interim reviews conducted pursuant to PCAOB standards.<sup>33</sup> The EQR must possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the engagement

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<sup>31</sup> See ASC Topic 410, *Asset Retirement and Environmental Obligations*.

<sup>32</sup> See ASC Topic 932-235-50-2, *Extractive Activities – Oil and Gas*.

<sup>33</sup> AS7 ¶ 1.



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under review.<sup>34</sup> An EQR of a firm must be a partner or another individual in an equivalent position.<sup>35</sup> An EQR should not make decisions on behalf of the engagement team, or assume any of the responsibilities of the engagement team.<sup>36</sup>

33. In connection with the FY 2012 audits of the financial statements of Seven Arts and Freestone, Respondents failed to comply with AS7. Hall assigned an auditor of the Firm to serve as the EQR for both audits. The auditor was not a partner or another individual in an equivalent position at the Firm. The highest level that the auditor had held on an engagement team was to serve as an audit senior. The auditor, as well, was not a licensed certified public accountant. This auditor did not possess the level of knowledge and competence required to serve as the engagement partner on the engagements under review.

34. In connection with the Firm's audit of the 2012 financial statements of Medient, Hall served as the EQR. At the same time that Hall served as the EQR, he also served as the engagement partner for this audit. Hall, therefore, made decisions and assumed responsibilities on behalf of the audit engagement team at the same time that he was serving as the EQR, in violation of AS7.

**E. Respondents Violated PCAOB Rule 4006 and AS3.**

35. PCAOB rules require that registered public accounting firms and their associated persons "shall cooperate with the Board in the performance of any Board inspection."<sup>37</sup> This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes."<sup>38</sup> PCAOB auditing standards require auditors to make certain written disclosures when they add information to work papers after the documentation completion date for an audit.<sup>39</sup> As described below, Respondents violated PCAOB Rule 4006 and AS3.

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<sup>34</sup> Id. ¶ 5.

<sup>35</sup> Id. ¶ 3.

<sup>36</sup> Id. ¶ 7.

<sup>37</sup> PCAOB Rule 4006.

<sup>38</sup> See *Henry Mendoza, CPA*, PCAOB Rel. No. 105-2014-004, ¶ 6 (May 6, 2014).

<sup>39</sup> AS3 ¶ 16 (requiring auditor to disclose the date that information was added to the work papers, the name of the person who prepared the additional



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36. October 14, 2012 was the report release date for the audit of the FY 2012 financial statements of Seven Arts.<sup>40</sup> The documentation completion date for the audit was November 28, 2012.<sup>41</sup>

37. On or before June 17, 2013, Respondents learned that the Board would inspect the Firm's audit of the FY 2012 financial statements of Seven Arts. After learning that this audit would be inspected, Hall, and others acting at his direction, improperly altered, added to, and backdated archived work papers without making the disclosures required by AS3. The altered work papers were made available to the Board's inspectors in connection with the inspection. At no time did Respondents advise the inspectors that these work papers were altered shortly before the inspection.

38. Hall, and others acting at his direction, added sign-offs to critical work papers that lacked such sign-offs at the time of the audit. The sign-offs were backdated to the time of the audit. Also, Hall added audit conclusions to existing work papers without indicating that the conclusions were added shortly before the Board's inspection. And an engagement team member, acting at Hall's direction, drafted and backdated certain work papers shortly before the inspection. These work papers did not exist, in any form, at the time of the audit. This conduct violated PCAOB Rule 4006.

39. Hall, and others acting at his direction, failed to indicate the dates that the alterations were made to the work papers, the names of the persons making the alterations, and the reason for making the alterations after the documentation completion date. This conduct failed to comply with AS3.

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documentation, and the reason for adding the information to the work papers after the documentation completion date).

<sup>40</sup> See id. ¶ 14 (defining report release date as the "date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements").

<sup>41</sup> See id. ¶ 15 (defining documentation completion date as "a date not more than 45 days after the report release date").



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**F. The Firm Violated PCAOB Rules 2200 and 2202.**

40. Pursuant to Section 102(d) of the Act, PCAOB Rule 2200 provides that "[e]ach registered public accounting firm must file with the Board an annual report[.]" PCAOB Rule 2201, *Time for Filing of Annual Report*, states that the deadline for filing the annual report is June 30 of each year. In violation of Section 102(d) of the Act and PCAOB Rule 2200, the Firm failed to file an annual report for 2014.

41. Pursuant to Section 102(f) of the Act, PCAOB Rule 2202 provides that "[e]ach registered public accounting firm must pay an annual fee to the Board on or before July 31" of any year that the firm is required to file an annual report. In violation of PCAOB Rule 2202, the Firm failed to pay its annual fee for 2014.

**G. Hall Substantially Contributed to the Firm's Violations of Relevant Laws, Rules, and Professional Standards.**

42. PCAOB rules prohibit an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that firm of the Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.<sup>42</sup>

43. At all relevant times, Hall was the: (a) sole owner of the Firm; (b) partner in charge of the Firm's issuer audit practice; (c) engagement partner for each of the Audits; and (d) contact person with the Board. Hall had overall responsibility for assuring that the Firm complied with relevant laws, rules, and professional standards. Hall knew, or was reckless in not knowing, that his acts and omissions directly and substantially contributed to the Firm's violations of relevant laws, rules, and professional standards. As a result, Hall violated PCAOB Rule 3502.

**IV.**

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

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<sup>42</sup> PCAOB Rule 3502.



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- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), The Hall Group, CPAs and David S. Hall are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), David S. Hall is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>43</sup>
- C. After three (3) years from the date of this Order, David S. Hall may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of The Hall Group, CPAs is revoked;
- E. After three (3) years from the date of the Order, The Hall Group, CPAs may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed upon The Hall Group, CPAs. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. The Hall Group, CPAs shall pay this civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter which identifies The Hall Group, CPAs as a Respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and

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<sup>43</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Hall. Section 105(c)(7)(B) of the Act provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."



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money order or check shall be sent to the Office of the Secretary,  
Attention: Phoebe W. Brown, Secretary, Public Company Accounting  
Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

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Phoebe W. Brown  
Secretary

[date]



*In the Matter of The Hall Group, CPAs and  
David S. Hall, CPA,*

*Respondents.*

)  
)  
) OFFER OF SETTLEMENT OF  
) THE HALL GROUP, CPAS

) PCAOB No. 105-2016-XXX  
)  
)  
)

I.

The Hall Group, CPAs ("Respondent"), pursuant to Public Company Accounting Oversight Board ("PCAOB" or "Board") Rule 5205, submits this Offer of Settlement ("Offer") in anticipation of a disciplinary proceeding being instituted against it by the Board, pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended, and PCAOB Rule 5200(a).

II.

This Offer is submitted solely for the purpose of settling this proceeding, with the express understanding that it will not be used by the Board in any way in this or any other proceeding, unless the Offer is accepted by the Board. If the Offer is not accepted by the Board, the Offer shall be deemed to be withdrawn without prejudice to Respondent and shall not become a part of the record in this or any other proceeding, except for the waiver expressed in Section IV.B, below, which shall remain in effect.

III.

Respondent waives any claim that the settlement of this proceeding, including the imposition of any sanction herein, precludes any government entity from imposing liabilities, sanctions, or penalties on Respondent for the violations alleged in this proceeding or identified in the attached Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").

IV.

By submitting this Offer, Respondent hereby waives:

- A. Such provisions of the rules of Board procedure or other requirements of law that may be construed to prevent any member of the Board's staff from participating in the preparation of, or

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advising the Board as to, any order, opinion, finding of fact, or conclusion of law to be entered pursuant to the Offer; and

- B. Any right to claim bias or prejudgment by the Board based on the consideration of or discussions concerning settlement of all or any part of this proceeding.

**V.**

By submitting this Offer, Respondent hereby further waives, subject to the Board's acceptance of the Offer, each of the following:

- A. all hearings pursuant to the statutory provision under which the proceeding is to be instituted;
- B. the filing of post-hearing briefs or other submissions, proposed findings of facts and conclusions of law;
- C. proceedings before, and an initial decision by, a hearing officer;
- D. all post-hearing procedures;
- E. the right to seek review by the U.S. Securities and Exchange Commission; and
- F. judicial review by any court.

**VI.**

Solely for the purpose of this proceeding and any other proceedings brought by or on behalf of the Board or in which the Board is a party, and without admitting or denying the findings contained in the Order, except as to the Board's jurisdiction over it and the subject matter of this proceeding, which is admitted, Respondent consents to the Board's issuance of the Order, in the form attached hereto.

**VII.**

Respondent agrees not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in the Order or creating the impression that the Order is without factual basis. Respondent understands that a breach of this agreement constitutes grounds for the Board to vacate the Order and restore this proceeding to its active docket without prior notice to the Respondent. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Board is not a party.

VIII.

Respondent agrees that, absent reasonable justification, it will, if requested, provide documents, testimony, or other information in a Board proceeding whether or not it is, at the time of the request or demand, a registered public accounting firm. Respondent understands that a breach of this agreement constitutes grounds for the Board to vacate the Order and restore this proceeding to its active docket without prior notice to the Respondent.

IX.

Respondent states that it has read and understands the foregoing Offer, that this Offer is made voluntarily, and that no promises, offers, threats, or inducements of any kind have been made by the Board in consideration of this Offer or otherwise to induce the Respondent to submit this Offer.


X.

Respondent agrees that if this Offer is accepted by the Board, the Order may be issued without service or further notice to the Respondent and shall take effect upon issuance.

Respectfully submitted,

The Hall Group, CPAs

By:

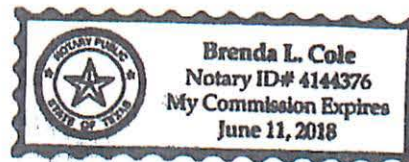
  
David S. Hall, CPA

State of Texas

County of DALLAS } ss.

On 2-11-16 before me, Brenda L. Cole, personally appeared DAVID S. HALL, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument. WITNESS my hand and official seal.

Signature Brenda L. Cole (Seal)







Public Company Accounting Oversight Board

Division of Enforcement and Investigations

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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS

*In the Matter of The Hall Group, CPAs  
and David S. Hall, CPA,*

*Respondents.*

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) PCAOB Release No. 105-2016-###  
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring The Hall Group, CPAs ("THG" or the "Firm"), revoking the Firm's registration, and imposing a civil money penalty in the amount of \$10,000 upon the Firm;<sup>1</sup> and censuring David S. Hall, CPA ("Hall") and barring Hall from being an associated person of a registered public accounting firm.<sup>2</sup> The Board is imposing these sanctions on the basis of its findings that: (1) the Firm and Hall (collectively, "Respondents") violated PCAOB rules and auditing standards in connection with the audits of the financial statements of three issuer clients; (2) Respondents violated PCAOB rules and auditing standards in connection with the Board's 2013 inspection of the Firm; and (3) the Firm violated PCAOB rules in connection with its failure, in 2014, to file an annual report and to pay an annual fee to the Board.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act") and PCAOB Rule 5200(a)(1) against Respondents.

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<sup>1</sup> The Firm may reapply for registration after three (3) years from the date of this Order.

<sup>2</sup> Hall may file a petition for Board consent to associate with a registered public accounting firm after three (3) years from the date of this Order.



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**II.**

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), as set forth below.<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>4</sup>

**A. Respondents**

1. The Hall Group, CPAs is, and at all relevant times was, a professional corporation organized under the laws of the state of Texas, and headquartered in Lewisville, Texas. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm previously was licensed to practice public accountancy by the Texas State Board of Public Accountancy ("TSBPA") (license no. C06240). The Firm's license with the TSBPA expired on May 31, 2014. At all relevant times, the Firm was the external auditor for the three issuers discussed below.

2. David S. Hall, age 58, of Lewisville, Texas, is a certified public accountant licensed by the TSBPA (license no. 037991). At all relevant times, Hall was the president and sole owner of the Firm, and he served as the engagement partner for the three audits discussed below. Hall is an associated person of a registered public

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<sup>3</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.



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accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

**B. Summary**

3. This matter concerns Respondents' violations of PCAOB rules and auditing standards in connection with the audits of the June 30, 2012 ("FY 2012") financial statements of Seven Arts Entertainment Inc. ("Seven Arts") and Freestone Resources, Inc. ("Freestone"), and the December 31, 2012 financial statements of Medient Studios, Inc. ("Medient") (collectively, the "Audits"). Respondents repeatedly failed to obtain sufficient appropriate audit evidence and to exercise due care and professional skepticism in connection with the Audits.

4. This matter also concerns Respondents' failures to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS7"). The engagement quality reviewer ("EQR") assigned to two of the Audits did not possess the level of knowledge and competence required to perform engagement quality reviews. In addition, Hall served as the EQR for the third Audit, while simultaneously serving as the engagement partner.

5. This matter also concerns Respondents' violations of PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, and Auditing Standard No. 3, *Audit Documentation* ("AS3"). In advance of the Board's 2013 inspection of the Firm, Hall, and others acting at his direction improperly altered, added to, and backdated archived work papers. Respondents made these misleading work papers available to the Board's inspectors in violation of PCAOB Rule 4006. Respondents also failed to comply with AS3 because Hall, and others acting at his direction, did not indicate the date that the work papers were modified, the names of the persons who made the modifications, and the reason for doing so.

6. This matter also concerns the Firm's failure, in 2014, to file an annual report with the Board and to pay an annual fee to the Board. See Section 102(d) of the Act, PCAOB Rule 2200, *Annual Report*; PCAOB Rule 2202, *Annual Fee*.

7. Finally, this matter concerns Hall's violation of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*. At all relevant times, Hall was the sole owner of the Firm and the engagement partner for each of the Audits. Hall was in charge of the Firm's issuer audit practice, and he was the Firm's contact with the Board. Hall took or omitted to take actions knowing, or recklessly not knowing, that his acts and/or omissions would directly and substantially contribute to the Firm's violations of PCAOB rules and auditing standards.



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**C. Respondents Violated PCAOB Rules and  
Auditing Standards in Connection with the Audits.**

8. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>5</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>6</sup> Among other things, those standards require that an auditor exercise due professional care and professional skepticism in performing the audit.<sup>7</sup>

9. PCAOB standards require auditors to take certain steps in connection with the identification and assessment of risks of material misstatement. An auditor should evaluate whether the company's selection and application of accounting principles are appropriate for its business and consistent with the applicable financial reporting framework and accounting principles used in the relevant industry.<sup>8</sup> Also, "[t]he auditor should evaluate whether the information gathered from the risk assessment procedures indicates that one or more fraud risk factors are present and should be taken into account in identifying and assessing fraud risks."<sup>9</sup> The improper recognition of revenue is a presumed fraud risk.<sup>10</sup>

10. To determine whether an identified and assessed risk is a significant risk, the auditor should evaluate whether the risk requires special audit consideration because of the nature of the risk or the likelihood and potential magnitude of misstatement related to the risk.<sup>11</sup> Relevant factors in determining whether a risk is a

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<sup>5</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

<sup>6</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>7</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

<sup>8</sup> See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS12") ¶¶ 12-13.

<sup>9</sup> *Id.* ¶ 65.

<sup>10</sup> *Id.* ¶ 68.

<sup>11</sup> *Id.* ¶ 70.



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significant risk include: (a) whether the identified risk is a fraud risk; and (b) whether the risk involves significant transactions with related parties.<sup>12</sup> The assessment of risk should continue throughout the audit and, when the auditor obtains audit evidence that contradicts audit evidence on which the original risk assessment was made, "the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments."<sup>13</sup>

11. PCAOB auditing standards require auditors to design and implement appropriate audit responses to the risks of material misstatement.<sup>14</sup> The auditor should determine whether it is necessary to make pervasive changes to the nature, timing, or extent of audit procedures to adequately address the assessed risks of material misstatement.<sup>15</sup> "The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence."<sup>16</sup> Also, the auditor should gain an understanding of the business rationale for significant unusual transactions and evaluate whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraud.<sup>17</sup>

12. The auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.<sup>18</sup> The "auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."<sup>19</sup> The auditor must evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.<sup>20</sup> "If the auditor has not obtained sufficient appropriate audit

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<sup>12</sup> Id. ¶ 71.

<sup>13</sup> Id. ¶ 74.

<sup>14</sup> Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS13") ¶ 3.

<sup>15</sup> Id. ¶ 6.

<sup>16</sup> Id. ¶ 7.

<sup>17</sup> AU § 316.66, *Consideration of Fraud in a Financial Statement Audit*.

<sup>18</sup> Auditing Standard No. 15, *Audit Evidence* ("AS15") ¶ 4.

<sup>19</sup> Auditing Standard No. 14, *Evaluating Audit Results* ("AS14") ¶ 3.

<sup>20</sup> Id. ¶ 4.





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evidence about a relevant assertion . . . the auditor should perform procedures to obtain further audit evidence to address the matter."<sup>21</sup> The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.<sup>22</sup>

13. As described below, Respondents failed to comply with the above PCAOB rules and auditing standards in connection with the Audits.

Seven Arts

14. At all relevant times, Seven Arts Entertainment Inc. was a Nevada corporation headquartered in Los Angeles, California. The public filings of Seven Arts disclosed that it was a motion picture production company. At all relevant times, its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act")<sup>23</sup> and was quoted on the OTC Pink marketplace. At all relevant times, Seven Arts was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

15. Hall was the engagement partner for the Firm's audit of the June 30, 2012 financial statements of Seven Arts, and he supervised the work of the engagement team. On October 14, 2012, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion on Seven Arts' financial statements. The audit report was included in the Form 10-K that Seven Arts filed with the Commission on October 15, 2012.

16. At the time of the audit, Respondents understood that the majority of the revenue recognized by Seven Arts resulted from a significant unusual transaction between the company and a related party. Seven Arts disclosed in its public filings that it was a motion picture production and distribution company. Ninety percent of the revenue that the company recognized in FY 2012, however, related to applications for tax credits for rehabilitating a house in New Orleans. The house was owned by a related party; namely, a company formed by the wife of the CEO of Seven Arts. Seven Arts guaranteed construction loans for the related party and, in exchange, the related party assigned to Seven Arts the proceeds of the tax credits. The company recognized revenue on this transaction in the amount of approximately \$7.5 million.

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<sup>21</sup> Id. ¶ 35.

<sup>22</sup> Id. ¶¶ 30-31.

<sup>23</sup> On February 27, 2015, Seven Arts filed a Form 15, *Certification and Notice of Termination of Registration*, with the U.S. Securities and Exchange Commission ("Commission") terminating the company's registration.



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17. Respondents failed to obtain sufficient appropriate audit evidence to evaluate whether an earnings process had taken place such that revenue could be recognized on this transaction. Respondents failed to evaluate whether Seven Arts had substantially accomplished what the company must do to be entitled to the benefits represented by the proceeds of the tax credits. More specifically, Respondents failed to evaluate whether goods had been delivered, services rendered, or other activities that constituted the company's ongoing major or central operations had been performed, as required by U.S. Generally Accepted Accounting Principles ("GAAP").<sup>24</sup>

18. Respondents also failed to obtain sufficient appropriate audit evidence to evaluate whether the proceeds of the tax credits were collectible.<sup>25</sup> Respondents ignored contrary audit evidence that called into question the collectability of these proceeds. Respondents were aware, at the time of the audit, of the following matters: (a) none of the proceeds had been received, either by the related party or by Seven Arts; (b) there was a lack of third-party evidence supporting that the applications for the tax credits had received final approval; (c) the FBI had subpoenaed Firm work papers in connection with an investigation involving the related party's applications for certain of the tax credits; (d) the U.S. Attorney in New Orleans was investigating a potential fraud in connection with the related party's application for certain of the tax credits; and (e) the Louisiana State Auditor was investigating the related party in connection with its application for certain of the tax credits.

19. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

Medient

20. At all relevant times, Medient Studios, Inc.<sup>26</sup> was a Nevada corporation headquartered in Los Angeles, California. Medient's public filings disclosed that it was a film production and distribution company. At all relevant times, its common stock was registered under Section 12(g) of the Exchange Act and was quoted on the OTCQB

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<sup>24</sup> Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 605-10-25-1, *Revenue Recognition*.

<sup>25</sup> Id.

<sup>26</sup> On September 9, 2014, Medient filed a Form DEF-14C, *Definitive Information Statement*, with the Commission stating that Medient had changed its name to Moon River Studios, Inc.



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marketplace.<sup>27</sup> At all relevant times, Medient was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

21. Hall was the engagement partner for the Firm's audit of the December 31, 2012 financial statements of Medient, and he supervised the work of the engagement team. On April 15, 2013, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion, with a going concern explanatory paragraph, on Medient's financial statements. The audit report was included in the Form 10-K that Medient filed with the Commission on April 16, 2013.

*Tax Credit Proceeds*

22. In 2012, Medient recognized revenue in the amount of \$1.4 million, or 43 percent of reported revenue, which consisted of Medient's right to the proceeds of certain United Kingdom film tax credits. Medient disclosed in its public filings that a United Kingdom taxing authority was expected to issue the tax credits to a related party of the company. Medient's CEO was a significant shareholder of that related party. At the time of the audit, Respondents determined that there was a significant risk of material misstatement for this transaction because the proceeds of the tax credits were due from a related party.

23. Respondents failed to obtain sufficient appropriate audit evidence to evaluate whether an earnings process had taken place. More specifically, Respondents failed to evaluate whether goods had been delivered, services rendered, or other activities that constituted the company's ongoing major or central operations had been performed.<sup>28</sup>

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<sup>27</sup> The Commission suspended the trading of Medient stock during the period June 25, 2014 through July 9, 2014, because of questions "about the accuracy and adequacy of publicly disseminated information concerning, among other things, the company's total shares outstanding and its operations." Medient Studios, Inc., TISO, Exchange Act Rel. No. 72462, 79 Fed. Reg. 36569 (June 25, 2014). After the expiration of the trading suspension, OTC Markets Group Inc. discontinued displaying quotes for Medient, and began identifying Medient as a Grey Market security. On March 12, 2015, the company filed with the Commission a Form 25, *Notification of Removal from Listing and/or Registration*, stating that the company had complied with the rules and requirements governing the voluntary withdrawal of the company's common stock from listing and registration on the OTC Markets.

<sup>28</sup> ASC Topic 605-10-25-1.



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24. Respondents also failed to obtain sufficient appropriate audit evidence to evaluate whether the proceeds from the film tax credits were collectible.<sup>29</sup> Respondents ignored contrary audit evidence that called into question the collectability of these proceeds. Among other things, the Firm's work papers contained information related to the following matters: (a) the asset purchase agreement between the related party and the prior owner of the tax credits excluded "[a]ll refunds, credits, or overpayments with respect to Taxes" from the sale; (b) no tax credits had been received, either by Medient or by the related party, at the time of the audit; and (c) there was no evidence that the application for the tax credits had been filed with, or approved by, the taxing authority.

25. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

*Advance from License Agreement*

26. In 2012, Medient also recognized revenue in the amount of \$1.3 million, or 41 percent of total reported revenue, arising out of an advance purportedly due from a motion picture studio. The agreement that entitled Medient to this advance was executed on September 4, 2012. The 2012 agreement was the second amendment to an earlier agreement between the parties. The earlier agreement was dated May 20, 2011. The 2012 agreement increased the original advance amount from approximately \$1.1 million to approximately \$1.3 million.

27. Respondents failed to obtain sufficient appropriate evidence to evaluate whether it was appropriate for Medient to recognize the advance as revenue. Respondents ignored contrary audit evidence that called into question the collectability<sup>30</sup> of the purported revenue, including the following matters: (a) none of the original \$1.1 million advance from May 2011 had been paid; and (b) none of the additional advance from September 2012 had been paid. Respondents were aware of these red flags; however, Respondents failed to perform procedures to obtain further audit evidence to address these matters.

Freestone

28. At all relevant times, Freestone Resources, Inc. was a Nevada corporation headquartered in Dallas, Texas. Freestone's public filings disclosed that it was an oil and gas technology development company. At all relevant times, its common stock was registered under Section 12(g) of the Exchange Act and was quoted on the

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<sup>29</sup> Id.

<sup>30</sup> Id.



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OTCQB marketplace. At all relevant times, Freestone was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

29. Hall was the engagement partner for the Firm's audit of the June 30, 2012 financial statements of Freestone, and he supervised the work of the engagement team. On September 19, 2012, Hall authorized the Firm's issuance of an audit report expressing an unqualified opinion, with a going concern explanatory paragraph, on Freestone's financial statements. The audit report was included in the Form 10-K that Freestone filed with the Commission on September 24, 2012.

*Asset Retirement Obligation*

30. Respondents failed to gather sufficient appropriate audit evidence to evaluate whether Freestone's accounting for an asset retirement obligation ("ARO") complied with GAAP. During FY 2012, Freestone recognized an increase in the liability for the cost to plug and abandon oil and gas properties. The ARO liability equaled 43 percent of total reported liabilities. Freestone failed to capitalize this additional cost to the related oil and gas assets. Instead, Freestone applied this cost to current expenses. Respondents failed to evaluate whether this complied with GAAP.<sup>31</sup>

*Financial Statement Disclosures*

31. Freestone failed to make the supplemental financial statement disclosures required of oil and gas producing companies. Supplemental disclosures are required when a company's revenues from oil and gas production equal or exceed 10 percent of total revenues.<sup>32</sup> In FY 2012, 100 percent of Freestone's revenues resulted from oil or gas production. Respondents failed to gather sufficient appropriate audit evidence to evaluate whether Freestone's omission of supplemental disclosures complied with GAAP.

**D. Respondents Failed to Comply with PCAOB Auditing Standards  
in Connection with the Engagement Quality Reviews for the Audits.**

32. AS7 requires that an engagement quality review be performed on audits and interim reviews conducted pursuant to PCAOB standards.<sup>33</sup> The EQR must possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the engagement

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<sup>31</sup> See ASC Topic 410, *Asset Retirement and Environmental Obligations*.

<sup>32</sup> See ASC Topic 932-235-50-2, *Extractive Activities – Oil and Gas*.

<sup>33</sup> AS7 ¶ 1.



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under review.<sup>34</sup> An EQR of a firm must be a partner or another individual in an equivalent position.<sup>35</sup> An EQR should not make decisions on behalf of the engagement team, or assume any of the responsibilities of the engagement team.<sup>36</sup>

33. In connection with the FY 2012 audits of the financial statements of Seven Arts and Freestone, Respondents failed to comply with AS7. Hall assigned an auditor of the Firm to serve as the EQR for both audits. The auditor was not a partner or another individual in an equivalent position at the Firm. The highest level that the auditor had held on an engagement team was to serve as an audit senior. The auditor, as well, was not a licensed certified public accountant. This auditor did not possess the level of knowledge and competence required to serve as the engagement partner on the engagements under review.

34. In connection with the Firm's audit of the 2012 financial statements of Medient, Hall served as the EQR. At the same time that Hall served as the EQR, he also served as the engagement partner for this audit. Hall, therefore, made decisions and assumed responsibilities on behalf of the audit engagement team at the same time that he was serving as the EQR, in violation of AS7.

**E. Respondents Violated PCAOB Rule 4006 and AS3.**

35. PCAOB rules require that registered public accounting firms and their associated persons "shall cooperate with the Board in the performance of any Board inspection."<sup>37</sup> This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes."<sup>38</sup> PCAOB auditing standards require auditors to make certain written disclosures when they add information to work papers after the documentation completion date for an audit.<sup>39</sup> As described below, Respondents violated PCAOB Rule 4006 and AS3.

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<sup>34</sup> Id. ¶ 5.

<sup>35</sup> Id. ¶ 3.

<sup>36</sup> Id. ¶ 7.

<sup>37</sup> PCAOB Rule 4006.

<sup>38</sup> See *Henry Mendoza, CPA*, PCAOB Rel. No. 105-2014-004, ¶ 6 (May 6, 2014).

<sup>39</sup> AS3 ¶ 16 (requiring auditor to disclose the date that information was added to the work papers, the name of the person who prepared the additional



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36. October 14, 2012 was the report release date for the audit of the FY 2012 financial statements of Seven Arts.<sup>40</sup> The documentation completion date for the audit was November 28, 2012.<sup>41</sup>

37. On or before June 17, 2013, Respondents learned that the Board would inspect the Firm's audit of the FY 2012 financial statements of Seven Arts. After learning that this audit would be inspected, Hall, and others acting at his direction, improperly altered, added to, and backdated archived work papers without making the disclosures required by AS3. The altered work papers were made available to the Board's inspectors in connection with the inspection. At no time did Respondents advise the inspectors that these work papers were altered shortly before the inspection.

38. Hall, and others acting at his direction, added sign-offs to critical work papers that lacked such sign-offs at the time of the audit. The sign-offs were backdated to the time of the audit. Also, Hall added audit conclusions to existing work papers without indicating that the conclusions were added shortly before the Board's inspection. And an engagement team member, acting at Hall's direction, drafted and backdated certain work papers shortly before the inspection. These work papers did not exist, in any form, at the time of the audit. This conduct violated PCAOB Rule 4006.

39. Hall, and others acting at his direction, failed to indicate the dates that the alterations were made to the work papers, the names of the persons making the alterations, and the reason for making the alterations after the documentation completion date. This conduct failed to comply with AS3.

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documentation, and the reason for adding the information to the work papers after the documentation completion date).

<sup>40</sup> See *id.* ¶ 14 (defining report release date as the "date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements").

<sup>41</sup> See *id.* ¶ 15 (defining documentation completion date as "a date not more than 45 days after the report release date").



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**F. The Firm Violated PCAOB Rules 2200 and 2202.**

40. Pursuant to Section 102(d) of the Act, PCAOB Rule 2200 provides that "[e]ach registered public accounting firm must file with the Board an annual report[.]" PCAOB Rule 2201, *Time for Filing of Annual Report*, states that the deadline for filing the annual report is June 30 of each year. In violation of Section 102(d) of the Act and PCAOB Rule 2200, the Firm failed to file an annual report for 2014.

41. Pursuant to Section 102(f) of the Act, PCAOB Rule 2202 provides that "[e]ach registered public accounting firm must pay an annual fee to the Board on or before July 31" of any year that the firm is required to file an annual report. In violation of PCAOB Rule 2202, the Firm failed to pay its annual fee for 2014.

**G. Hall Substantially Contributed to the Firm's Violations of Relevant Laws, Rules, and Professional Standards.**

42. PCAOB rules prohibit an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that firm of the Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.<sup>42</sup>

43. At all relevant times, Hall was the: (a) sole owner of the Firm; (b) partner in charge of the Firm's issuer audit practice; (c) engagement partner for each of the Audits; and (d) contact person with the Board. Hall had overall responsibility for assuring that the Firm complied with relevant laws, rules, and professional standards. Hall knew, or was reckless in not knowing, that his acts and omissions directly and substantially contributed to the Firm's violations of relevant laws, rules, and professional standards. As a result, Hall violated PCAOB Rule 3502.

**IV.**

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

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<sup>42</sup> PCAOB Rule 3502.





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- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), The Hall Group, CPAs and David S. Hall are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), David S. Hall is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>43</sup>
- C. After three (3) years from the date of this Order, David S. Hall may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of The Hall Group, CPAs is revoked;
- E. After three (3) years from the date of the Order, The Hall Group, CPAs may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed upon The Hall Group, CPAs. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. The Hall Group, CPAs shall pay this civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter which identifies The Hall Group, CPAs as a Respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and

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<sup>43</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Hall. Section 105(c)(7)(B) of the Act provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."



**CONFIDENTIAL DRAFT ORDER  
FOR SETTLEMENT PURPOSES ONLY  
January 29, 2016**

money order or check shall be sent to the Office of the Secretary,  
Attention: Phoebe W. Brown, Secretary, Public Company Accounting  
Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

---

Phoebe W. Brown  
Secretary

[date]

## Rosenberg, Michael

---

**From:** David Dyer <David.Dyer@solidcounsel.com>  
**Sent:** Wednesday, March 09, 2016 2:00 PM  
**To:** Rosenberg, Michael  
**Cc:** 1dmbproperties@gmail.com  
**Subject:** RE: The Hall Group/David Hall

Dear Michael,

Both Mr. Hall and The Hall Group CPAs agree to this change.

When do you expect the order will be signed and published?



### **David Dyer**

Partner  
500 N. Akard, Suite 2700  
Dallas, Texas 75201  
214.706.4204 (Direct)  
214.706.4200 (Main)  
214.706.4242 (Facsimile)  
[david.dyer@solidcounsel.com](mailto:david.dyer@solidcounsel.com)  
[www.solidcounsel.com](http://www.solidcounsel.com)

**SCHEEF & STONE, L.L.P.**

*Legal counsel based on solid principles.*

---

**From:** Rosenberg, Michael [<mailto:RosenbergM@pcaobus.org>]  
**Sent:** Tuesday, March 08, 2016 4:57 PM  
**To:** David Dyer  
**Subject:** The Hall Group/David Hall

Dear David:

Following up on our telephone call, we need to make a small change to paragraph 33 of the proposed order. The change relates to the engagement quality reviews for Seven Arts and Freestone. Below is a markup of the change (deleted text is ~~stricken through~~ and new text is in underlined):

33. In connection with the FY 2012 audits of the financial statements of Seven Arts and Freestone, ~~Respondents~~ the Firm failed to comply with AS7. Hall assigned an auditor of the Firm to serve as the EQR for both audits. The auditor was not a partner or another individual in an equivalent position at the Firm. The highest level that the auditor had held on an engagement team was to serve as an audit senior. The auditor, as well, was not a licensed certified public accountant. This auditor did not possess the level of knowledge and competence required to serve as the engagement partner on the engagements under review.

Please confirm by response to this email that this change is acceptable to your clients, The Hall Group CPAs and David S. Hall, CPA.

Thank you,

Michael

**Michael S. Rosenberg**

Associate Director, Division of Enforcement and Investigations

**Public Company Accounting Oversight Board**

1666 K Street NW | Suite 800 | Washington, DC 20006 | USA

Phone: (202) 207-9254 | Email: [RosenbergM@pcaobus.org](mailto:RosenbergM@pcaobus.org)

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## Rosenberg, Michael

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**From:** David Dyer <David.Dyer@solidcounsel.com>  
**Sent:** Thursday, March 24, 2016 4:49 PM  
**To:** Rosenberg, Michael  
**Subject:** RE: The Hall Group/David Hall - PROPOSED ORDER

Acceptable to both clients.



### **David Dyer**

Partner  
500 N. Akard, Suite 2700  
Dallas, Texas 75201  
214.706.4204 (Direct)  
214.706.4200 (Main)  
214.706.4242 (Facsimile)  
[david.dyer@solidcounsel.com](mailto:david.dyer@solidcounsel.com)  
[www.solidcounsel.com](http://www.solidcounsel.com)

**SCHEEF & STONE, L.L.P.**

*Legal counsel based on solid principles.*

---

**From:** Rosenberg, Michael [<mailto:RosenbergM@pcaobus.org>]

**Sent:** Friday, March 18, 2016 10:30 AM

**To:** David Dyer

**Subject:** The Hall Group/David Hall - PROPOSED ORDER

Dear David:

Following up on our telephone call this morning, we need to make a small change to paragraph 43 of the proposed order. The change relates to PCAOB Rule 3502. Below is a markup of the change (new text is underlined):

43. At all relevant times, Hall was the: (a) sole owner of the Firm; (b) partner in charge of the Firm's issuer audit practice; (c) engagement partner for each of the Audits; and (d) contact person with the Board. Hall had overall responsibility for assuring that the Firm complied with relevant laws, rules, and professional standards. Hall knew, or was reckless in not knowing, that his acts and omissions directly and substantially contributed to the Firm's violations of relevant laws, rules, and professional standards in connection with the Firm's performance of engagement quality reviews, and the Firm's failure to file an annual report with the Board and to pay an annual fee to the Board, as described above. As a result, Hall violated PCAOB Rule 3502.

Please confirm by response to this email that this change is acceptable to your clients, The Hall Group CPAs and David S. Hall, CPA.

Thank you,



Michael

**Michael S. Rosenberg**

Associate Director, Division of Enforcement and Investigations

**Public Company Accounting Oversight Board**

1666 K Street NW | Suite 800 | Washington, DC 20006 | USA

Phone: (202) 207-9254 | Email: [RosenbergM@pcaobus.org](mailto:RosenbergM@pcaobus.org)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
BURNETT PLAZA, SUITE 1900  
801 CHERRY STREET, UNIT #18  
FORT WORTH, TEXAS 76102-6882  
PHONE: (817) 978-3821 FAX: (817) 978-4927

IN REPLYING  
PLEASE QUOTE  
FW-3976

July 22, 2016

*Via United Parcel Services*

Office of the Secretary  
United States Securities and Exchange Commission  
100 F. Street, NE  
Washington, D.C. 20549



Re: *In the Matter of David S. Hall, P.C. d/b/a The Hall Group CPAs, David S. Hall, CPA, Michelle L. Helterbran Cochran, CPA and Susan A. Cisneros, Administrative No. 3-17228*

Dear Ladies and/or Gentlemen:

Pursuant to Rules 151 and 152 of the Commission Rules of Practice, the Division is filing the enclosed *Division of Enforcement's Response to the Hall Respondents' Motion for Summary Disposition* in the above-referenced matter. Division is transmitting to the Commission (Office of the Secretary) an original and three copies of this filing.

Sincerely,

*Deborah Minnick*  
Deborah Minnick  
Trial Paralegal

Attachments

cc: Honorable Cameron Elliot  
Administrative Law Judge  
U.S. Securities and Exchange Commission  
100 F. Street, NE  
Washington, DC 20549-2557

David S. Hall, P.C. d/b/a The Hall Group CPAs  
c/o Stuart N. Bennett  
Jones & Keller, P.C.

1999 Broadway, Suite 3150  
Denver, CO 80202

David S. Hall, CPA  
c/o Stuart N. Bennett  
Jones & Keller, P.C.  
1999 Broadway, Suite 3150  
Denver, CO 80202

Michele L. Helterbran Cochran, CPA

[REDACTED]

Ms. Susan A. Cisneros

[REDACTED]